

Strasbourg, October 13<sup>th</sup> 2017



Welcome to the 2<sup>nd</sup> edition  
of the

**ERMEEES Macroeconomics Workshop**  
**“Heterogeneities in the EU: strength or weakness?”**

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**BETA**  
**Bureau**  
**d'économie**  
**théorique**  
**et appliquée**  
**UMR 7522**





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# Programme Workshop 2017

		Friday October 13 <sup>th</sup> , 2017
		<i>Collège Doctoral Européen</i> <sup>1</sup>
Morning	8h30	<i>Registration and Welcome breakfast, Jardin Intérieur – first floor</i>
	9h00	Opening speech
	9h15	<b>Plenary session</b> ( <i>Amphithéâtre - Ground floor</i> ) <b>Cinzia Alcidi</b> (Centre for European Policy Studies (CEPS), Brussels).
	10h15	<i>Coffee Break, Jardin Intérieur – first floor</i>
	10h45	Parallel session 1a: <b>Central bank strategy and policy mix</b> , <i>Amphithéâtre</i> Parallel session 1b: <b>Fiscal policy</b> , <i>Petit Auditorium</i> Parallel session 1c: <b>Labour market</b> , <i>Salle de séminaire</i>
	12h30	<i>Lunch</i>
Afternoon	14h00	<b>Plenary Session</b> ( <i>Amphithéâtre - Ground floor</i> ) <b>Iain BEGG</b> ( <i>European Institute, London School of Economics</i> )
	15h00	Parallel session 2a: <b>Monetary policy and financial integration</b> , <i>Amphithéâtre</i> Parallel session 2b: <b>Business cycle and growth</b> , <i>Petit Auditorium</i> Parallel session 2c: <b>Uncertainty and expectations</b> , <i>Salle de séminaire</i>
	16h45	<i>Coffee Break, Jardin Intérieur – first floor</i>
	17h15	<b>Plenary Session</b> ( <i>Amphithéâtre - Ground floor</i> ) <b>Paul DE GRAUWE</b> ( <i>European Institute, London School of Economics</i> )
	18h15	<b>Closing remarks and information about special issue</b>

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Jamel TRABELSI



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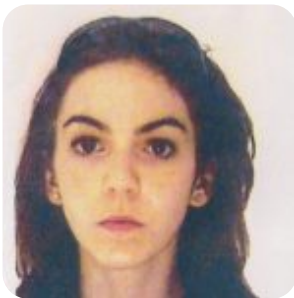


Meixing DAI



Moïse SIDIROPOUL

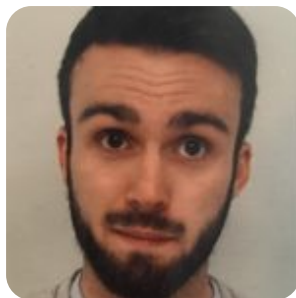
## Organizing Committee



Marine André



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Yann THOMMEN



Narimène DAHMANI

# ERMEES

Created in November 2013, ERMEES (Strasbourg European Macroeconomics Research Team) is the result of an effort to bring together macroeconomists working on European matters within the BETA (CNRS – UMR 7522). ERMEES includes economists, who share the same eagerness to work together and make the best of their scholarship and expertise. Thanks to the presence of specialists of European issues (monetary, budgetary, financial...), ERMEES also intends to interface with the citizens, inform them and exchange perspectives on these topics.

## Keynote Speakers



**Cinzia ALCIDI** - *Centre for European Policy Studies, Brussels*

Dr. Cinzia Alcidi is Head of the Economic Policy Unit at the Centre for European Policy Studies in Brussels and LUISS-School of European Political Economy- research fellow. Since 2015 she is the coordinator of CEPS Academy Activities. Prior to CEPS, she used to work for the International Labour Organization in Geneva.

Her research activity includes international economics, macroeconomics, central banking and EU governance



**Iain BEGG** -*European Institute, London School of Economics*

Prof. Iain Beggs is a Professorial Research Fellow at the European Institute, London School of Economics and Political Science. He is also frequently invited as an expert and adviser to work for the House of Commons Treasury Committee, the House of Lords European Communities Committee and the European Parliament.

His main research fields focus on Britain and the Euro, the EU budget and economy, the European employment strategy and European social policy.



**Paul DE GRAUWE** – *European Institute, London School of Economics*

Prof. De Grauwe wears two hats in politics and economics because, prior to joining LSE, he was Professor of International Economics at the University of Leuven, Belgium and was a Belgian senator from 1991 to 2003, as well. He is honorary doctor of several well-known European universities. He also heads the CESifo research network of, University of Munich.

His research interests are international monetary relations, monetary integration, theory and empirical analysis of the foreign-exchange markets, and open-economy macroeconomics.

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# Detailed Programme of Friday, October 13<sup>th</sup> 2017

8h30 – 9h00	<b>Registration and Welcome Breakfast</b>	
9h00 – 9h15	Opening speech	Amphithéâtre
9h15– 10h15	Plenary session Cinzia Alcidi ( <i>Centre for the European Policy Studies, Brussels</i> )	Amphithéâtre
10h15-10h45	<b>Coffee Break</b>	
10h45 – 12h30	<p><b>Parallel Sessions</b></p> <p><b>Session 1a: Central bank strategy and policy mix</b> Chairman: Moïse SIDIROPOULOS</p> <p><b>Jean-Bernard CHATELAIN</b>, Can we identify the FED's Preferences? <u>Reviewer:</u> Xakousti CHRYSANTHOPOULOU</p> <p><b>Christos MAVRODIMITRAKIS</b>, Symbiosis and Coordination of Macroeconomic Policies in a Monetary Union <u>Reviewer:</u> Jean-Bernard CHATELAIN</p> <p><b>Xakousti CHRYSANTHOPOULOU</b>, "Social Pacts" and monetary policy under limited asset market participation <u>Reviewer:</u> Christos MAVRODIMITRAKIS</p> <p style="text-align: right;">Amphithéâtre</p> <p><b>Session 1b: Fiscal Policy</b> Chairman: Thierry BETTI</p> <p><b>Marien FERDINANDUSSE</b>, Non-linearities in Fiscal Policy: Evidence from the Eurozone <u>Reviewer:</u> Christophe BLOT</p> <p><b>Cinzia ALCIDI</b>, Fiscal risk-sharing: New lessons for the euro area from the US <u>Reviewer:</u> Marien FERDINANDUSSE</p> <p><b>BLOT Christophe</b>, Dealing with external imbalances and public debt objectives in the euro area: a dilemma? <u>Reviewer:</u> Cinzia ALCIDI</p> <p style="text-align: right;">Petit Auditorium</p> <p><b>Session 1c: Labour Market</b> Chairman: Francesco DE PALMA</p> <p><b>Peter CLAEYS</b>, Imperfect mobility of labour across sectors and fiscal transmission <u>Reviewer:</u> Yann THOMMEN</p> <p><b>Alfonso ARPAIA</b>, Statutory Minimum Wages in the EU: Institutional Settings and Macroeconomic Implications <u>Reviewer:</u> Peter CLAYES</p> <p><b>Yann THOMMEN</b>, Collective bargaining regime and employment protection legislation reform <u>Reviewer:</u> Alfonso ARPAIA</p> <p style="text-align: right;">Salle de Séminaire</p>	

<b>12h30 – 14h00</b>	<b>Lunch Break</b>
<b>14h00 – 15h00</b>	<b>Plenary Session</b> <b>Iain BEGG</b> ( <i>European Institute, London School of Economics</i> ) Amphithéâtre
<b>15h00 – 16h45</b>	<b>Parallel Sessions</b>  <b>Session 2a: Monetary Policy and Financial Integration</b> Chairman: Meixing DAI <b>Yannick LUCOTTE</b> , Competition and credit procyclicality in European banking <u>Reviewer:</u> Jamel TRABELSI  <b>Gabriele TONDL</b> , Interest rates, corporate lending and growth in the Euro Area <u>Reviewer:</u> Yannick LUCOTTE  <b>Jamel TRABELSI</b> , Credibility effects in Inflation Dynamics: The case of Poland <u>Reviewer:</u> Gabriele TONDL  Amphithéâtre  <b>Session 2b: Business cycle and growth</b> Chairman: Amélie BARBIER-GAUCHARD  <b>Corrado MACCHIARELLI</b> , Core-Periphery Dynamics in Europe, 1987-2015 <u>Reviewer:</u> Patrizio TIRELLI  <b>Patrizio TIRELLI</b> , Debunking the Myth of Southern Profligacy. A DSGE Analysis of Business Cycles in the EMU's Big Four <u>Reviewer:</u> Corrado MACCHIARELLI  Petit Auditorium  <b>Session 2c: Uncertainty and expectations</b> Chairman: Jamel TRABELSI <b>Bas VAN AARLE</b> , Sentiment and uncertainty fluctuations and their effects on the Euro Area business cycle <u>Reviewer:</u> Anja KUKUVEC  <b>Dennis BONAM</b> , Home biased expectations and macroeconomic imbalances in a monetary union <u>Reviewer:</u> Bas VAN AARLE <b>Anja KUKUVEC</b> , How do business sentiments propagate within the European Union? <u>Reviewer:</u> Dennis BONAM  Salle de Séminaire
<b>16h45-17h15</b>	<b>Coffee Break</b>
<b>17h15-18h15</b>	<b>Plenary Session</b> <b>Paul DE GRAUWE</b> ( <i>European Institute, London School of Economics</i> ) Amphithéâtre
<b>18h15-18h30</b>	<b>Closing remarks and information about special issue</b>

# Abstracts of papers

## SESSION 1a: Central bank strategy and policy mix

**Jean-Bernard CHATELAIN**, Can we identify the FED's Preferences?

*Shifting from Ramsey optimal policy to time-consistent policy or optimal simple rule corresponds to a bifurcation of the dynamic system of the economy. A pre-test of Ramsey optimal policy versus time-consistent policy rejects time-consistent policy and optimal simple rule for the U.S. Fed during 1960 to 2006, assuming the reference new-Keynesian Phillips curve transmission mechanism with autocorrelated cost-push shock. The number of reduced form parameters is larger with Ramsey optimal policy than with time-consistent policy although the number of structural parameters, including central bank preferences, is the same. The new-Keynesian Phillips curve model is under-identified with Ramsey optimal policy (one identifying equation missing) and hence under-identified for time-consistent policy (three identifying equations missing). Estimating a structural VAR for Ramsey optimal policy during Volcker-Greenspan period, the new-Keynesian Phillips curve slope parameter and the Fed's preferences (weight of the volatility of the output gap) are not statistically different from zero at the 5% level.*

**Keywords:** Ramsey optimal policy, Time-consistent policy, Identification, Central bank preferences, New-Keynesian Phillips curve.

**Christos MAVRODIMITRAKIS**, Symbiosis and Coordination of Macroeconomic Policies in a Monetary Union

*This paper deals with strategic policy interactions in a monetary union. We use a static two-country monetary-union model, which incorporates the key features of the New-Keynesian framework. We investigate the policy mix outcome under non-conflicting but different objectives when the two policy instruments can directly affect inflation. Thus, we provide a reconciliation of the early literature, which is mostly based on the supply-side of the economy with the most recent literature, which mainly focuses on the demand side. We consider the short-run macroeconomic stabilization and welfare implications of the fiscal-monetary policy interactions at both the union and national levels. We compare and contrast the alternative strategic regimes (simultaneous-move, fiscal/monetary leadership) in the monetary union and we analyze both the horizontal (across governments) and the vertical (between the monetary and the fiscal authorities) coordination problems. We define the impact that the policies' direct effects on inflation has on (i) fiscal authorities' cooperation, (ii) policies' cyclicity, and (iii) the alternative strategic regimes (symbiosis). We draw important results on the preferable strategic and fiscal regime for the monetary authority.*

**Keywords:** Monetary union; Fiscal/monetary policies; Coordination; Symbiosis; Strategic regimes

**Xakousti CHRYSANTHOPOULOU**, Strategic interactions between «non-atomistic» wage setters, fiscal policy and asset markets in a NK-DSGE model: Do they really matter for monetary policy ?

*This paper studies the implications of strategic interactions between non-atomistic wage setters, countercyclical fiscal policy and limited asset market participation (LAMP) for the conduct of monetary policy. In particular, we focus on whether and how macroeconomic institutions may affect the framework for monetary policy analysis, i.e. the aggregate dynamics of the economy, the stability properties of different simple interest rate rules and the characteristics of optimal targeting rules.*

*We show that non-atomistic unions have a motive to moderate wage increases when, the degree of fiscal countercyclical policy increases (i.e. the so-called «Corporatist or Social Pacts», where governments offer fiscal expansion in exchange for wage restraint), or/and the fraction of Non-Ricardian households or the mass of unions (degree of wage setting centralization) decreases.*

*It is well understood that limited asset market participation can change dramatically the slope of the New Keynesian IS curve and consequently the properties of widely used interest rate rules. In our setting, the ability of Monetary Authority to trigger the reaction of the Fiscal Authority creates an additional monetary transmission channel and extends (shrinks) the area where the New Keynesian IS curve preserves its negative (positive) sign and consequently the area where the «Taylor Principle» («Inverted Taylor Principle») is operating.*

*Moreover, we found that the stability properties of forward –looking interest rate rules are determined by the degree of asset market participation, wage setting centralization and aggressiveness of countercyclical fiscal policy. For example, when the New Keynesian IS curve is negatively sloped, this occurs because countercyclical fiscal policy behaves as a substitute for monetary policy: public spending varies in the same direction of the monetary policy that stabilize economy.*

*Finally, our results suggest the stabilization role of macroeconomic institutions (i.e. the «Social Pacts» and LAMP), in the face of cost push shocks, when Monetary Authority is unable to commit to future policies: The resulting well-known policy trade-off (output gap movements for inflation stability) is negatively associated with the aggressiveness of the countercyclical fiscal policy and the high asset market participation rates.*

*So «Social Pacts» and LAMP can help monetary policy on the control of the supply side of the economy: Stabilizing the economy is not indifferent to fiscal policy and asset market structure.*

**Keywords:** *Non-atomistic wage setters, monetary policy, fiscal policy, business cycle, limited asset markets participation, Social Pacts.*



## SESSION 1b: Fiscal policy

**Marien FERDINANDUSSE**, Non-linearities in Fiscal Policy: Evidence from the Eurozone

*This paper investigates the existence and the policy implications of non-linear fiscal reaction functions for Eurozone countries from 1978 to 2015, focusing on differences between countries under pressure during the sovereign debt crisis (periphery) and the ones that were not (core). We use a novel method within the fiscal reaction function literature to determine an endogenous threshold in the presence of regressor endogeneities, and that non-linear specifications fits the fiscal reaction functions of EMU countries best in some dimensions. More specifically, core EMU tend to follow a counter-cyclical fiscal policy with regard to changes in the output gap which is stronger when the output is negative. This allowed the automatic stabilisers to operate more effectively. The stabilization response of their periphery counterparts on the contrary is found to be pro-cyclical and linear. This required a stronger response to debt than in core EMU countries, which is found to be stronger when debt reaches very high levels. This strong response of fiscal policy to debt variations for the periphery during the crisis is independent from any market pressures as captured by spreads.*

**Keywords:** Fiscal reaction function, Sustainability, Stabilisation, Rolling window, Dynamic panel data, Threshold effects.

**Cinzia ALCIDI**, Fiscal risk-sharing and Resilience to Shocks: Lessons for the euro area from the US

*The classic argument for a euro area (EA) fiscal capacity revolves around the need to “dampen the effects of asymmetric shocks”. According to authors who expound this conventional wisdom, the euro area (EA) needs a common fiscal capacity along the lines of the ‘US federal fiscal system’ because it lacks automatic stabilisers to deal with asynchronous output fluctuations. This paper provides empirical evidence to indicate that the abovementioned view largely overstates the stabilising role of US federal transfers to states. Despite the absence of a centralised EA stabiliser, the automatic stabilisers in the EA bring about a larger degree of insurance against asymmetric shocks (about 20%) than that provided by the US federal budget (11%). To some extent, this is attributable to the higher degree of market-based risk sharing in the US and to the existence of other public institutions enhancing financial stability and private risk sharing in the US. Yet we show that US federal fiscal policy appears to be primarily a stabiliser of US-wide shocks, rather than idiosyncratic shocks.*

**Keywords:** Asymmetric shocks, fiscal capacity, euro area, US monetary union, fiscal risk sharing

**BLOT Christophe**, Dealing with external imbalances and public debt objectives in the euro area: a dilemma?

*The question of macro imbalances has gained importance in the European governance. The Macroeconomic imbalances procedure (MIP) provides incentives for EA members to improve their competitiveness when current account deficit are considered as excessive. Consequently, EA countries should achieve simultaneously the reduction of public debt and the reduction of current account imbalances. Achieving these objectives may be a source of internal inconsistencies. To illustrate these*

*trade-offs, we simulate a simple macroeconomic model developed Blot et al. (2014), which takes into account the main macro elements of debt sustainability and output dynamics, the composition effects and the external trade linkages. To this end, we first quantify the price adjustment compatible with a stable and sustainable international investment position. Then, regarding whether the correction of external imbalances is symmetric – countries with external surpluses implement reflation policies – or asymmetric – only deficit countries implement internal devaluation – we assess whether Euro area countries are able to meet the 60% ratio for public debt at a 20-year horizon. Our simulations illustrate that under the non-cooperative solution – where countries with fiscal space do not implement expansionary policies and surpluses countries do not accept an internal reevaluation – the euro area systematically undershoots its inflation objective and suffers from a sustained economic slack.*

**Keywords:** Fiscal rules - Deflation – Macroeconomic imbalances

## SESSION 1c: Labor market

**Peter CLAEYS**, Imperfect mobility of labor across sectors and fiscal transmission

*Our paper investigates the impact of government spending shocks on relative sector and contrasts the effects across countries. Using a panel of sixteen OECD countries over the period 1970-2007, our VAR evidence shows that a rise in government consumption i) increases the share of non tradables in GDP (in real terms) and lowers the share of tradables, and ii) causes a significant increase in non-traded wages relative to traded wages. While the first findings reveals that the non traded sector is more intensive in the government spending shock and experiences a labor inflow that increases its relative size, the second finding suggests the presence of labor mobility costs preventing wage equalization across sectors. Turning to cross-country differences, empirically we detect a positive relationship between the magnitude of impact responses of sectoral output shares and the degree of labor mobility across sectors. To account for our evidence, we develop an open economy version of the neoclassical model with tradables and non tradables. Our quantitative analysis shows that the model is successful in replicating the responses of sectoral output shares to a fiscal shock, as long as we allow for a difficulty in reallocating labor across sectors along with adjustment costs to capital accumulation. Finally, calibrating the model to country-specific data, we are able to generate a cross-country relationship between the degree of labor mobility and the responses of sectoral output shares which is similar to that in the data.*

**Keywords:** Fiscal policy; Labor mobility; Investment; Non tradables; Sectoral wages.

**Alfonso ARPAIA**, Statutory Minimum Wages in the EU: Institutional Settings and Macroeconomic Implications

*This paper analyses some macroeconomic implications of the statutory minimum wage in the member states of the European Union and assesses how its institutional design influences these*

outcomes. First, the paper looks at the institutional dimensions of statutory minimum wage setting. On the basis of this information, an indicator of institutional stringency is built to characterise the degree of predictability of minimum wage setting. Second, it explores the impact of minimum wage changes on employment, prices, consumption, and poverty.

**Keywords:** minimum wage, statutory minimum wage, composite indicator, poverty, in-work poverty, European Union

**Yann THOMMEN**, Collective bargaining regime and employment protection legislation reform.

*Several European countries are looking for an ideal system of employment protection. We use a matching model with endogenous job destruction to compare labor market outcomes under firm-level and sector-level bargaining, following the implementation of the U.S. system known as "experience-rating", which induces firms to internalize layoff fiscal costs. We show with a qualitative analysis that the implementation of the new employment protection system unambiguously reduces job losses in the decentralized bargaining regime, while the result is ambivalent under the sectoral negotiation regime. Results from our numerical analysis suggest that the experience-rating system improves labor market performance under both firm-level and sector-level bargaining regime. While the overall efficiency is increased in the latter case, the positive fiscal effects on labor costs seem to be reduced due to an increase in wages. In a more turbulent economic environment, reform's heterogeneous effectiveness across the two types of bargaining regime is even greater.*

**Keywords:** collective bargaining, employment protection, experience-rating, unemployment

## SESSION 2a: Monetary policy and financial integration

**Yannick LUCOTTE**, Competition and credit procyclicality in European banking

*This paper empirically assesses the effects of competition in the financial sector on credit procyclicality by estimating both an interacted panel VAR (IPVAR) model using macroeconomic data and a single-equation model with bank-level European banking data. The findings of these two empirical approaches highlight that an exogenous deviation of actual GDP from potential GDP leads to greater credit fluctuation in economies where (i) competition among banks and (ii) competition from non-bank financial institutions or direct finance (proxied by the financial structure) are weak. According to the financial accelerator theory, if lower competition strengthens the cyclical behavior of financial intermediaries, it follows that these "endogenous developments in credit markets work to amplify and propagate shocks to the macroeconomy" (Bernanke et al., 1999). Furthermore, since credit booms are closely associated with future financial crises (Valencia and Laeven, 2012), our results can also be read as evidence that greater competition in the financial sphere reduces financial instability, which is in line with the competition-stability view denying the existence of a trade-off between competition and stability.*

**Keywords:** Credit Cycle; Business Cycle; Bank Competition; Interacted Panel VAR

## **Gabriele TONDL**, Interest rates, corporate lending and growth in the Euro Area

*The sluggish development of corporate lending has remained the central concern of EU monetary policy makers as it is considered to hinder seriously the resurgence of growth. This paper looks at the development of loans to large corporations vs SMEs in the pre- crisis and post-crisis period and wishes to answer: (i) to which extent do allocated loan volumes actually contribute to output growth? (ii) which factors determine the development of loans, considering above all loan interest rates? and (iii) what causes differences in loan interest levels across the EA? The results indicate that different loan developments in the EA explain very well differences in output development, loans to SMEs contribute even more to output growth than those for large corporations. Loan development itself is negatively influenced by the interest level which differs significantly across EA members, with small loans in addition always being charged an interest premium over large loans. The capitalization of banks, the size of banks and their internationalization play a role as well. A part of the sluggish growth of loans can be explained by the increasing use of alternative financial instruments by large firms. Interest rates in turn are following the ECB interest rate, - but this link has become looser in the post-crisis period, and long term government bond rates. Different risks faced by banks and different bank structures have become important explanatories of interest rates in the post-crisis period.*

**Keywords:** *Corporate lending; Credit market fragmentation; Interest pass-through; bank lending rates; Finance and growth; Euro Area;*

## **Jamel TRABELSI**, Credibility effects in Inflation Dynamics: The case of Poland

*This paper examines the role of monetary credibility in Poland's inflation dynamics by using a new hybrid Phillips curve with time-varying coefficients. We specify our model under State space form and estimate by using a Kalman filter approach. The results indicate that, before financial crisis, Poland's inflation dynamics is well described by lagged and future expected inflation with an important forward-looking behaviour predominance. Thus, the monetary credibility played a role in Poland's disinflation process because its effects seem to make inflation dynamics more forward-looking.*

**Keywords:** *Inflation dynamics, Poland, new hybrid Phillips curve, credibility, Kalman filter.*

## **SESSION 2b: Business cycle and growth**

### **Corrado MACCHIARELLI**, Core-Periphery Dynamics in Europe, 1987-2015

*The conventional approach to core-periphery asymmetries in currency unions utilises binary classifications based on demand (not supply) shocks. This paper proposes a new approach thereby*

*modelling supply considerations as over-identifying restrictions. This produces a new theory-based measure, continuous over the core-periphery spectrum: the percentage of times the full AS-AD model is rejected. The more it is rejected, the more “peripheric” a country is said to be. Using the Phillips-Sul procedure, we identify core, intermediary and periphery sets among European economies, yearly for 1990-2015. Panel estimates suggest euro membership and stricter product market regulations make countries less or more peripheric, respectively*

**Keywords:** Core-Periphery; Euro; European Union; EMU; SVAR

**Patrizio TIRELLI**, Debunking the Myth of Southern Profligacy. A DSGE Analysis of Business Cycles in the EMU’s Big Four

*We uncover important asymmetries in the drivers of EMU big four’s business cycles. In Germany and France demand shocks played a major role in determining output growth before and after the financial crisis. The pre-2007 boom in Spain was mainly driven by favorable technology shocks. The sovereign bond crisis was followed by a sequence of adverse permanent technology shocks both in Spain and in Italy. These latter results are consistent with recent theoretical developments that emphasize the adverse supply-side effects of a credit crunch.*

**Keywords:** Asymmetric Euro crisis, two-country DSGE, Bayesian estimation

## SESSION 2c: Uncertainty and expectations

**Bas VAN AARLE**, Sentiment and uncertainty fluctuations and their effects on the Euro Area business cycle

*This paper considers the role of economic sentiment and economic uncertainty in explaining economic adjustment in the Euro Area during the Financial Crisis and Great Recession. The analysis is based on VAR models of economic activity, sentiment and uncertainty in four sectors -industry, retail, services and construction-. Evidence is found that sentiment and uncertainty have non-negligible effects on economic activity. Finally, also some additional evidence is provided by studying four individual countries: Greece, Germany, France and the UK.*

**Keywords:** sentiment, uncertainty, ambiguity, business cycle, Euro area

**Dennis BONAM**, Home biased expectations and macroeconomic imbalances in a monetary union

*Under monetary union, economic dynamics may diverge across countries due to regional inflation differentials and a pro-cyclical real interest rate channel, yet stability is generally ensured through endogenous adjustment of the real exchange rate. The speed of adjustment depends, inter alia, on the way agents form expectations. We propose a model in which agents’ expectations are largely*



*based on domestic variables, and less so on foreign variables. We show that such home bias in expectations strengthens the real interest rate channel and causes country-specific shocks to generate larger and more prolonged macroeconomic imbalances.*

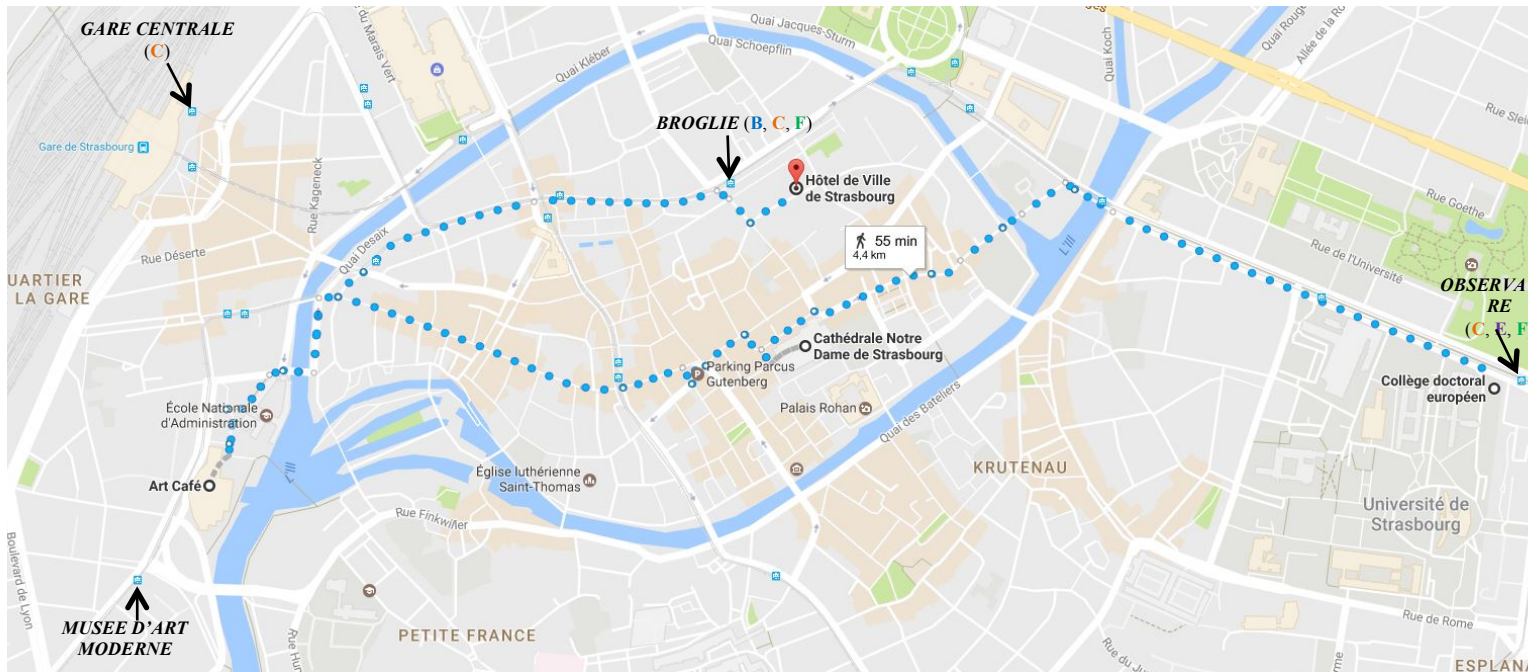
**Keywords:** *monetary union, macroeconomic imbalances, home biased expectations, E-stability*

**Anja KUKUVEC**, The propagation of business sentiments within the European Union

*This paper empirically investigates the propagation of business sentiments within the European Union (EU) and adds to the literature on shock absorption via a common market's real economy. To this end, we combine EU-wide official business sentiment indicators with world input-output (IO) data and information on indirect wage costs. Econometrically, we model interdependencies in economic activities via IO-linkages and apply space-time models. The resulting evidence provides indication for the existence of substantial spillovers in business sentiments formation. Accordingly, and highlighted by the estimated impacts of indirect labor costs reforms, any policies aiming at increasing the resilience of the whole single market need to take these spillovers into account in order to increase its effectiveness.*

**Keywords:** *Business sentiments; propagation; economic fluctuations; input-output linkages; networks; space-time model, policy reforms.*

## Practical Information



- Conference place (27<sup>th</sup> and 28<sup>th</sup>):

***Collège Doctoral Européen (CDE), 46 Boulevard de la Victoire, 67000 Strasbourg***  
(Tram Station OBSERVATOIRE (lines **C**, **E**, **F**))

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